



FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

**AUDIT, EVALUATION, AND SURVEY PLAN
FY 2012**



AUDIT, EVALUATION, AND SURVEY PLAN

Fiscal Year 2012

Overview

On July 30, 2008, the Federal Housing Finance Agency (FHFA/Agency) was established by the Housing and Economic Recovery Act of 2008 (HERA), Public Law No. 110-289. Specifically, HERA abolished two existing Federal agencies, the Office of Federal Housing Enterprise Oversight (OFHEO) and the Federal Housing Finance Board (FHFB), and in their place created FHFA to regulate the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks (FHLBanks), and the FHLBanks' fiscal agent, the Office of Finance.

FHFA's mission is to: provide effective supervision, regulation, and oversight of Fannie Mae, Freddie Mac, and FHLBanks (collectively, Government Sponsored Enterprises or GSEs); promote their safety and soundness, support housing finance, affordable housing, and community development goals; and facilitate a stable and liquid mortgage market.

Since September 2008, FHFA also has been the conservator of Fannie Mae and Freddie Mac (together, the Enterprises). FHFA placed the Enterprises into conservatorships out of concern that their deteriorating financial conditions would destabilize the financial markets. At that time, the U.S. Department of Treasury (Treasury) agreed to provide them with substantial financial support. As of September 2011, the Enterprises under their conservatorships have received \$169 billion in Treasury support pursuant to senior preferred stock purchase agreements with each of them. FHFA estimates that Treasury's total investment could range from \$220 billion to \$311 billion through 2014. Moreover, since September 2008, the Federal Reserve and Treasury have purchased more than \$1.3 trillion in Enterprise mortgage-backed securities (MBS), and the Federal Reserve has purchased an additional \$135 billion of bonds issued by the Enterprises. Further, in recent years several FHLBanks have faced significant financial and operational challenges.

FHFA Office of Inspector General

FHFA Office of Inspector General (FHFA-OIG) was established by Section 1105 of HERA, which amended the Inspector General Act of 1978, Public Law No. 95-452. The mission of FHFA-OIG is to: promote the economy, efficiency, and effectiveness of FHFA programs; prevent and detect fraud, waste, and abuse in FHFA programs; and seek sanctions against, and criminal prosecutions of, those responsible for such fraud, waste, and abuse. FHFA-OIG provides independent and objective reporting to the FHFA Director, Congress, and the American people through audits, evaluations, surveys, and investigations.

On October 12, 2010, the first Inspector General of FHFA was sworn into office. A key objective of the Inspector General has been to recruit skilled and experienced staff and build the infrastructure necessary to ensure that FHFA-OIG can fulfill its mission. He has recruited experienced auditors, evaluators, lawyers, investigators, subject matter experts, information technology experts, and administrative professionals to staff FHFA-OIG's Executive Office and the Offices of Audits, Evaluations, Investigations, and Administration.

To guide FHFA-OIG, the Inspector General has prioritized the development of this comprehensive Audit, Evaluation, and Survey Plan. FHFA-OIG does not publicly disclose its investigative plan due to the sensitive nature of its investigations.

FHFA-OIG Office of Audits

The Office of Audits (OA) provides audit and related services covering the programs and operations of FHFA. Through its financial and performance audits and attestation engagements, OA seeks to: (1) promote economy, efficiency, and effectiveness in the administration of FHFA's programs; (2) detect and deter fraud, waste, and abuse in FHFA's activities and operations; and (3) ensure compliance with applicable laws and regulations.

Under the Inspector General Act, inspectors general are required to comply with standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, activities, and functions. These standards, referred to as Generally Accepted Government Auditing Standards, are prescribed in the *Government Auditing Standards*, commonly referred to as the "Yellow Book." OA performs its audits and attestation engagements in accordance with the Yellow Book.

FHFA-OIG Office of Evaluations

The Office of Evaluations (OE) reviews, studies, and analyzes FHFA's programmatic and operational activities and provides independent and objective analyses to FHFA. It also assists the Inspector General by developing recommendations designed to resolve significant deficiencies in the effectiveness or efficiency of FHFA's programs and operations.

The Inspector General Reform Act of 2008, Public Law No. 110-409, requires inspectors general to adhere to professional standards developed by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Evaluation standards are prescribed by CIGIE in its *Quality Standards for Inspection and Evaluation*, commonly referred to as the "Blue Book." OE performs its evaluations in accordance with the Blue Book.

FHFA-OIG Audit, Evaluation, and Survey Planning Processes

In order to meet the requirements of the Inspector General Act (as amended), the *Yellow Book*, and the *Blue Book*, FHFA-OIG has established an ongoing and dynamic planning process¹ focusing on the areas of greatest risk to FHFA and the GSEs. FHFA-OIG's Audit, Evaluation, and Survey Plan² enables it to address these risks and ensure transparency and accountability in the Agency's programs and operations, including the Agency's regulation of the GSEs. FHFA-OIG identifies subjects that should be surveyed, audited, or evaluated through a variety of means, including discussions with program officials, the public, Congress, and federal agencies; risk assessments performed in key areas related to the FHFA mission; and matters referred to FHFA-OIG through its Hotline.

Key Areas of FHFA-OIG Audit, Evaluation, and Survey Focus

On the basis of FHFA-OIG's planning process, in Fiscal Year 2012 the Offices of Audits and Evaluations plan to prioritize projects related to FHFA's conservatorships and oversight over Fannie Mae and Freddie Mac. Since September 2008, taxpayers have provided \$169 billion in direct support to the Enterprises, along with additional support in the form of over \$1.4 trillion in Federal Reserve and Treasury purchases of Enterprise MBS and corporate bonds. As the Enterprises' conservator, FHFA must ensure that Fannie Mae's and Freddie Mac's assets are conserved and preserved; and, as their regulator, the Agency

¹ The *Quality Standards for Federal Offices of Inspector General*, issued in October 2003 and adopted by the CIGIE, address the importance conducting an annual audit and evaluation planning process to identify and prioritize potential work.

² This plan is, by its nature, dynamic. Accordingly, it is not intended to be a comprehensive or final recitation of the surveys, audits, and evaluations that will be initiated during Fiscal Year 2012. For example, risk assessments of the vulnerability of FHFA's programs and operations to fraud, waste, and abuse will be a continuing part of FHFA-OIG's planning process, and the results of these assessments may influence the scope and timing of FHFA-OIG's future audit, evaluation, and survey planning. Additionally, FHFA-OIG may receive requests from FHFA, Congress, and other stakeholders for other audits, evaluations, and surveys, and currently scheduled work may alert FHFA-OIG to new areas deserving attention. FHFA-OIG will work closely with the Government Accountability Office and other inspectors general to ensure that risk-based coverage of government-wide programs is included in the planning process.

Surveys – either audit or evaluation – do not necessarily stand on their own. Generally, they are intended to support other FHFA-OIG activities. Specifically, surveys are preliminary solicitations of information that FHFA-OIG uses to augment other work or to make determinations about initiating new efforts. Surveys ordinarily do not lead to formal reports. Rather, information compiled during surveys may be referenced in on-going work or may result in new audit or evaluation announcements.

must ensure that they operate in a safe and sound manner. It is, therefore, critical that FHFA manage the conservatorships effectively and conduct thorough oversight of their operations to help ensure that taxpayer costs are minimized and that the Enterprises continue to provide critical financial support to the still-fragile U.S. housing finance system. Accordingly, FHFA-OIG's Audit, Evaluation, and Survey Plan contains a range of projects regarding FHFA's conservation, regulation, and overall management of Fannie Mae and Freddie Mac.

In addition to its focus on FHFA's conservation and regulation of Fannie Mae and Freddie Mac, FHFA-OIG also expects to assess the Agency's oversight of the FHLBanks' systems, financial conditions, and operations, including their investment portfolio management, concentrations, and credit underwriting and administration. FHLBanks have faced financial and operational challenges in recent years due, in part, to their activities related to private-label MBS. FHLBanks' collateral risk management practices also have been an area of ongoing concern in recent years, as has been their housing, economic, and community development mission achievements.

FHFA-OIG also has identified FHFA's management and operational practices as a potential risk area meriting its audit, evaluation, and survey focus. FHFA was established to consolidate the oversight structure for the GSEs, and this consolidation has presented challenges. Additionally, FHFA-OIG's work in this area will continue to focus on required audits concerning FHFA's information security program and the protection of privacy information.

FHFA-OIG also expects to continue to work with law enforcement partners, whistleblowers, and other parties concerned with eliminating fraud, waste, and abuse.

Finally, FHFA-OIG expects to continue to review and comment upon proposed FHFA legislation and rules as warranted.

FHFA-OIG Audit, Evaluation, and Survey Plan

FHFA-OIG has prepared this Fiscal Year 2012 Audit, Evaluation, and Survey Plan following an ongoing strategy of identifying vulnerabilities and risk areas in FHFA and GSE programs. It is aided by: a continuing risk assessment process; reviews of relevant reports and documents by FHFA and external parties; interviews with FHFA officials; and consultations with Members of Congress, other government officials, and subject matter area experts. The plan is organized around three program areas based on FHFA-OIG's priorities: FHFA Conservatorship Management and Enterprise Oversight; FHFA's FHLBank System Oversight; and FHFA Internal Operations. FHFA-OIG is constantly reassessing its priorities based upon risk; this Audit, Evaluation, and Survey Plan will be modified in accordance with these risks, as well as to ensure that the FHFA-OIG's limited resources are put to their optimal use in order to accomplish its mission.

ONGOING AND PLANNED AUDITS, EVALUATIONS, AND SURVEYS



Program Areas/Objectives

Conservatorship Management and Enterprise Oversight Issues

FHFA Oversight of Enterprise Legal Fees: To assess FHFA's oversight of the Enterprises' processes for managing the legal fees of former officers.

White Paper: FHFA's Conservatorship Operations: To provide information about, as well as analysis of, FHFA's management of Fannie Mae's and Freddie Mac's conservatorships in light of applicable law and other, similar federal conservatorships.

FHFA's Efforts to Balance its Roles and Missions When Making Policy Decisions: To assess, in the context of the development of policy, the methods employed by FHFA to balance its multiple roles and missions, and to identify and manage potential operational conflicts associated with them.

FHFA's Oversight of Mortgage Servicing Standards: To assess whether FHFA has an effective supervisory control structure and sufficient examination coverage to adequately and timely identify and mitigate mortgage servicing risks.

FHFA's Oversight of the Enterprises' Controls over Real Estate Owned (REO): To assess FHFA's oversight of Fannie Mae's and Freddie Mac's controls over its REO operations, including management and sales activities and contractor performance.

FHFA's Oversight of Enterprise Adherence to Mortgage Underwriting Standards: To assess the effectiveness of FHFA's oversight of Fannie Mae's and Freddie Mac's monitoring and management of their mortgage sellers'/servicers' compliance with contractual obligations related to applicable underwriting standards.

<p>FHFA’s Oversight of Fannie Mae Loss Mitigation Activities: To assess FHFA’s oversight of the effectiveness of Fannie Mae’s loss mitigation activities for single-family residential mortgages.</p>
<p>FHFA Oversight of Fannie Mae’s Purchase and Transfer of Mortgage Servicing Rights: To assess FHFA’s oversight of Fannie Mae’s purchase of mortgage servicing rights from Bank of America and transfer of the rights to other entities.</p>
<p>FHFA’s Approval Process for Conservatorship Actions: To assess FHFA’s approval process for actions related to the Fannie Mae and Freddie Mac conservatorships.</p>
<p>FHFA’s Oversight of the Enterprises’ Management of Counterparty Risk Related to Non-Performing Servicers in the Aftermath of the Failure of Taylor, Bean & Whitaker Mortgage Corporation: To assess FHFA’s oversight of the Enterprises’ management of counterparty risk related to non-performing sellers/servicers, including consideration of the impact of the failure of Taylor, Bean & Whitaker Mortgage Corporation on the Enterprises’ procedures.</p>
<p>FHFA’s Oversight of Foreclosure Processing: To assess FHFA’s oversight of the Enterprises’ controls over their loan servicers’ foreclosure processes, including initiatives intended to bring greater efficiencies to the process and the impact of foreclosure sales in fragile markets.</p>
<p>White Paper: Uses of Treasury Funds to Support the Enterprises: To provide information and analysis about the uses to which approximately \$169 billion in Treasury investments have been put in support of the Enterprises during their conservatorships.</p>
<p>FHFA’s Oversight of Enterprise Financial Statement Audits: To assess FHFA’s oversight of, and controls related to, the financial statement audits of the Enterprises.</p>
<p>FHFA’s Oversight of the Preferred Stock Purchase Agreements: To assess FHFA’s oversight of the Enterprises’ implementation of the Senior Preferred Stock Purchase Agreements with the Department of the Treasury.</p>
<p>FHFA’s Oversight of the Enterprises’ Non-Profit Activities: To assess FHFA’s oversight of the Enterprises’ non-profit activities since the commencement of the conservatorships.</p>

<p>FHFA’s Oversight of the Enterprises’ Management of Their Mortgage Insurance Claims Processes: To assess FHFA’s oversight of the Enterprises’ policies, procedures, and practices with respect to mortgage insurance claims processing.</p>
<p>FHFA’s Oversight of the Multifamily Housing Programs of Fannie Mae and Freddie Mac: To assess FHFA’s oversight of multifamily housing programs, including underwriting, acquisition, securitization, servicing, and investment activities.</p>
<p>White Paper: Trend Analysis: To analyze the trends in FHFA’s performance of its dual missions as the conservator and regulator of Fannie Mae and Freddie Mac, and the regulator of the FHLBanks.</p>
<p>FHFA’s Oversight of the Enterprises’ Use of Derivatives: To assess FHFA’s oversight of the Enterprises’ employment of derivatives to manage market risk and for other purposes.</p>
<p>FHFA’s Oversight of the Enterprises’ Management of Deficiency Judgments: To assess FHFA’s oversight of Enterprise controls over consideration and pursuit of deficiency judgments for credit losses incurred on defaulted single-family residential mortgages.</p>
<p>FHFA’s Oversight of Conservatorship Internal Audit Programs: To assess FHFA’s oversight of the Enterprises’ internal audit programs.</p>
<p>FHFA’s Oversight of Enterprise Guarantee Fees: To assess FHFA’s oversight of the Enterprise’s pricing and administration of guarantees on single-family residential mortgages.</p>
<p>Servicing Alignment Initiative: To assess FHFA’s development of the Servicing Alignment Initiative and oversight of the Enterprise’s implementation of the initiative, which is designed to establish consistent policies and processes for the servicing of delinquent loans owned or guaranteed by Fannie Mae and Freddie Mac.</p>
<p>FHFA’s Oversight of Enterprise Compliance with Statutory Underwriting and Reporting Requirements: To assess FHFA’s oversight of the Enterprises’ compliance with Federal statutory requirements related to (1) underwriting single-family residential mortgage loans, (2) ensuring proper borrower notifications and protection, and (3) reporting on real estate transactions.</p>

FHFA Oversight of the Enterprises' Securitization Process: To assess FHFA's oversight of the Enterprises' controls over the securitization and sales processes for single-family mortgages.

FHLBank System Oversight Issues
<p>FHFA’s Oversight of FHLBank Capital: To assess FHFA’s supervision and regulation of capital in the FHLBank system.</p>
<p>FHFA’s Oversight of Troubled FHLBanks: To assess the adequacy of FHFA’s efforts to help restore the financial soundness of FHLBanks facing financial or operational challenges.</p>
<p>FHFA Oversight of the FHLBank System Organizational Structure: To assess FHFA’s oversight of the effectiveness and efficiency of the organizational structure of the FHLBank System.</p>
<p>FHFA’s Oversight of FHLBanks’ Affordable Housing Program (AHP) and Community Reinvestment Activities: To assess FHFA’s oversight of the FHLBanks’ administration and management of AHP.</p>
<p>FHFA’s Oversight of FHLBanks’ Advance and Collateral Management: To assess FHFA’s supervisory framework related to FHLBanks’ advances and collateral management practices for institutions that represent heightened supervisory concern.</p>
<p>Program Areas/Objectives</p>
FHFA Internal Operations
<p>FHFA Information Technology Network Vulnerabilities: To assess FHFA’s control over information technology network access by external parties.</p>
<p>Fiscal Year 2012 Audit of FHFA’s Information Security Program Required by Federal Information Security Management Act (FISMA): To assess FHFA’s information security program and practices to determine whether they meet the security responsibilities outlined in FISMA.</p>
<p>FHFA Improper Payments: To assess FHFA’s controls designed to prevent and detect improper payments.</p>

Post-Award Contract Audits of Major FHFA Contractor Billings: To assess the allowance, allocation, and reasonableness of contractor billings on major FHFA contracts.

FHFA's Utilization of the Call Report System (CRS) in its Oversight of the Enterprises: To assess FHFA's utilization of the CRS to facilitate its oversight of Fannie Mae and Freddie Mac.

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**To Report Suspected
Fraud, Waste or Abuse
In FHFA Programs or Operations
Call the OIG Hotline at (800) 793-7724
Executive Office: (202) 408-2544
Fax: (202) 408-2972
Online: www.fhfaoig.gov**

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